

VZCZCXRO0956
OO RUEHDT RUEHPB
DE RUEHHM #1281/01 3621038
ZNR UUUUU ZZH
O P 281038Z DEC 07
FM AMCONSUL HO CHI MINH CITY
TO RUEHC/SECSTATE WASHDC IMMEDIATE 3499
INFO RUCPDO/USDOC WASHDC PRIORITY 0056
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHHI/AMEMBASSY HANOI PRIORITY 2389
RUCNARF/ASEAN REGIONAL FORUM COLLECTIVE
RUEHHM/AMCONSUL HO CHI MINH CITY 3718

UNCLAS SECTION 01 OF 03 HO CHI MINH CITY 001281

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STATE FOR EAP/MLS, EEB/TPP/BTA/ANA
STATE PASS TO USTR DBISBEE
TREASURY FOR SCHUN
COMMERCE FOR HHPHO
USAID/ANE

E.O. 12958: N/A

TAGS: [ECON](#) [EAGR](#) [ELNT](#) [ETRD](#) [BEXP](#) [VM](#)

SUBJECT: HCMC BUSINESS LEADERS: EVEN INSIDERS INCREASINGLY FAVOR
TRANSPARENCY

REF: HO CHI MINH CITY 1265

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¶1. (SBU) The political influence of Ho Chi Minh City's business establishment has increased as Vietnam's economy has grown. In stark contrast to the days of the command economy, the Government of Vietnam (GVN) now celebrates the business community's contributions to the national development (on October 13 each year) and businessmen are sought after as Party members. This first in a series of cables analyzing the role of HCMC's business community in shaping Vietnam's future focuses on those agents of change who are working from inside the system. We examine two business leaders who owe their start to their political connections but their current success to their business acumen. Rather than being content to run (typically money-losing) state-owned enterprises, these two represent a small but growing class of business leaders who have transformed the companies they run into highly competitive private businesses. Both due to their economic clout and their connections, forward-looking managers such as these are a major voice for economic reform in Vietnam. End summary.

¶2. (SBU) This is the first in a series of cables analyzing the role of HCMC's business community in shaping Vietnam's policies. We will assess the politically-connected, the self-made, and those who were associated with the old regime but have overcome that stigma to make money and gain influence.

Economic Reforms Create a New Political Reality

¶3. (SBU) Economic reforms have made Vietnam tangibly wealthier; confirming to virtually every Vietnamese citizen that the doi moi reforms (to shift to a market-oriented economy) started in 1986 are propelling the country in the right direction. Vietnam's GDP has grown at an average annual rate of eight percent since 2001 and per capita income has risen from USD\$220 to USD\$830 (2007 est). A recent World Bank study placed the purchasing power parity (PPP) per capita income in Vietnam at over USD\$2,000. With the economic stagnation and extreme deprivations of the 80's still a vivid memory for most adults, the majority of Vietnamese clearly support the path of economic reform and global integration.

¶4. (SBU) Former Prime Minister Phan Van Khai officially recognized business as a guiding force in Vietnam's economic

development in 2004 when he decreed October 13 as "Business People's Day" to honor them and recognize their contributions to national development. The 10th National Party Congress of Vietnam in April 2006 promulgated a resolution to recruit businessmen to the Party and allow Party members to own private businesses. While it may seem academic, recognizing the "business class" as equal with the working class, the farmers and the intellectuals represented a fundamental doctrinal shift for the CPV.

HCMC's Well-Connected Business Leaders

15. (SBU) HCMC is the nation's economic engine and serves as a crucible for developing and testing new ideas in the economic, political and social spheres. The city accounts for 20 percent of GDP and its tax contribution provides 33 percent of the state budget -- all with only 6.5 percent of the official population. In 2007, HCMC's average per capita income is estimated at \$2,200, almost triple the national average of \$830, and its GDP grew at 12.6 percent.

16. (SBU) Politically-connected business people with sterling revolutionary credentials enjoyed almost exclusive access to Vietnam's leaders in the 90's when the government turned only to familiar voices for advice on managing the economy. This access still means quicker approvals, less red tape and often inside information, as their track-record in developing property demonstrates. For the most successful business leaders, however, connections alone do not tell the whole story. Instead, they combine their connections with business savvy, good financial management and a willingness to break new business ground in order to turn crumbling state enterprises into rising economic stars. Increasingly, they are advocates for dismantling the system of preferences that gave them their start.

Creating and Defending an Empire

17. (SBU) Typical of this group is Nguyen Thi Nghia. Born in

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Saigon in 1948, she joined the revolution at the age of 15 and was active in the anti-war students' movements before 1975. When cooperatives crumbled under the cumulative weight of poor management and public distrust toward the end of the 80s, Nghia was serving as the Chief of the HCMC's Cooperative Management Committee. Seeing an opportunity, Nghia established the Saigon Union of Trading Cooperatives (Saigon Co.op) with just \$6,000 capital. Leveraging her position and connections (her husband Pham Chanh Truc was Vice-Chairman of the HCMC People's Committee) to acquire prime locations, she developed retail and supermarkets in HCMC and later throughout Vietnam. Saigon Co.op is now Vietnam's leading distribution chain operator and top retailer and has been consistently ranked among the top 500 retailers in the Asia-Pacific region by Asia Retail Journal since 2004. Earlier this year, a Japanese retail trade group named Co.op as one of the top 20 emerging retailers in Asia.

18. (SBU) Translating commercial success into a political career, Nghia was elected to the National Assembly for the 2002-2007 legislature and gained even more influence in 2005 when then PM Khai awarded her the Labor Hero Order, the highest honor recognizing achievements in labor. In early 2007, she established the Retailers' Association of Vietnam in order "to protect and promote" local emerging retailers and distributors. The association now flexes considerable muscle; for example it successfully lobbied the GVN to promulgate Circular 9 to keep foreign firms out of the retail market for as long as it can under WTO commitments (reftel).

19. (SBU) While there is no doubt that Nghia's political connections have helped her enormously, there is also no doubt that she is building a market-based, competitive retail and distribution system. She is particularly proud that all managers of Co.op's new chain of "super stores" all have U.S. retail management experience and/or training.

From Refrigeration to Empire

¶10. (SBU) Nguyen Thi Mai Thanh is Chairwoman and General Director of Refrigeration Electrical Engineering Corporation (REE). Born in 1952 in a southern province of Tay Ninh, Thanh joined the medical team of a revolutionary force led by her father in 1968 when she was just 16 years old. Her father later went on to become the commander of Military Region 7, the region around HCMC. With these sterling credentials, Thanh was chosen to head a state-owned refrigeration and HVAC contracting company. Rather than just run the struggling company as before, however, Thanh transformed REE into the "poster child" for economic reform, becoming Vietnam's first equitized company (1993), the first Vietnamese company to raise capital through bond issuance (1996), the first company listed on the HCMC stock exchange (2000) and the first Vietnamese company to issue convertible bonds (2003). Along the way, REE is also commonly held to have received another boost from Thanh's military father in the form of prime land for a high-technology business center ("e-town") in HCMC. (Comment: We cannot say for certain if her connections helped Thanh obtain more preferable treatment in this deal or if it was simply that her knowledge of the military's surplus land led her to propose an economically viable development plan. End Comment.)

¶11. (SBU) Thanh is now an informal advisor to Vietnam's leadership and advocates for increased transparency, especially for the sale of downtown HCMC's twenty "golden site" properties planned for development. Thanh told us that when she asked how to go about bidding on one of the golden sites to develop, officials informed her that the selection process was closed. While she could not choose which site to bid on, she was told that she would nonetheless be assigned at least one site to develop. Rather than being happy with her good fortune for being allocated a site, she complained to the HCMC People's Committee that lack of transparency damages both the city and the market. Chairman Quan said he understood but that HCMC could do nothing since "the decision was made in Hanoi," so Thanh took her case to Prime Minister Dung. HCMC recently took bids on the very same properties, receiving offers higher by a factor of ten than anticipated using the original "strategic partner" approach.

¶12. (SBU) Like virtually every Vietnamese, Thanh put the past behind when doing business with Americans. "There are more business opportunities that benefit both Vietnamese and American

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companies being created," she said in a media interview as she accompanied President Nguyen Minh Triet in his June 2007 visit to the United States.

Comment:

¶13. (SBU) Many still think of Vietnam as one vast smoke-filled room where decisions are made by the Communist Central Committee. This is no longer the case for the majority of businesses in Vietnam. As these two cases illustrate, even politically connected businesses recognize how much they benefit from Vietnam's move toward becoming a market economy. While many state-owned enterprises either founder to barely stay afloat, those that are prospering are doing so as much based on their business plan as their political connections. In the future, we believe that the space for those who rely solely on connections to do business will continue to narrow. HCMC's increasingly feisty newspapers serve as a constant reminder to those who rely too heavily on connections and special deals that printing stories about corruption and unfair dealing is now fair game. End comment.

¶14. (U) This cable was coordinated with Embassy Hanoi.
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